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C O N F I D E N T I A L SECTION 01 OF 02 ADDIS ABABA 002741

SIPDIS

DEPARTMENT FOR EEB/IFD/OMA - JWINKLER AND EEB/CBA -
DWINSTEAD
USAID FOR AFR/EA HELLYER AND DALTON
DEPT PASS TO USTR FOR PATRICK COLEMAN, CECILIA KLEIN, AND
BARBARA
GRYNIEWWICZ
DEPT OF COMMERCE WASHDC FOR ITA MARIA RIVERO
DEPT OF TREASURY WASHDC FOR REBECCA KLEIN

E.O. 12958: DECL: 11/19/2019

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SUBJECT: ETHIOPIA: SEACOM DEAL STILL AWAITING GOE APPROVAL

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Classified By: Charge d'Affaires Ambassador Roger A. Meece for Reasons
1.4 (b) and (d).

11. (SBU) Summary. U.S. company Seacom arrived in Ethiopia in early October in hopes of finalizing a contract with the Ethiopian Telecommunications Corporation (ETC) and returned again in mid-November, but has yet to conclude a deal. The contract would allow for Ethiopia to connect to Seacom's existing undersea fiberoptic cable via Djibouti and provide a significant boost to broadband capacity in the country. Two years of negotiations have not produced ETC Board approval of the contract. The Seacom cable is already providing enhanced internet access to countries down the East African coastline, from Kenya to South Africa. The most recent Seacom-ETC negotiations coincide with new ETC storylines that hint at liberalization. ETC recently issued a tender seeking to revamp its management operations and unconfirmed press reports indicated ETC is interested in pursuing revenue-sharing agreements with other providers. Additionally, Minister of Transport and Communications Diriba Kuma stated publicly that a new telecom bill is aimed at strengthening the telecom regulatory agency. End Summary.
STILL NO DEAL

12. (C) Seacom representatives visited Ethiopia in early October to attempt to finalize a contract with ETC and met with Econoffs to provide post with a status update. Seacom thought the contract terms were nearly finalized after two years of negotiations; however, ETC's procurement team raised the new issue of a 10 percent withholding tax during this visit that would have to be factored into the contract terms. Seacom maintained it has already offered extremely favorable cable lease terms to ETC, but was being asked to endure another cut into its profits. Negotiations continued into mid-October and Seacom submitted a draft agreement to the ETC Board at that time. Seacom was hopeful for a positive response in October, but instead was compelled to return to Ethiopia in mid-November to continue negotiations. It appears ETC keeps identifying different contract issues and

continues to pose new questions to Seacom. On November 17, ETC provided Seacom a new proposal to bridge the differences and Seacom finds the proposal promising.

13. (C) If Seacom does not have a final contract soon, its representatives told Econoffs they plan to request a meeting with Prime Minister (PM) Meles Zenawi. Seacom met with PM Meles about 10 months ago and the company believes he may be the only one that can move this contract forward. Seacom stated Ethiopia has a lot to gain financially from this cable connection, not only increased domestic revenues, but backhaul fees if it is extended into Sudan and other neighboring countries. Ethiopia will probably lose more control of internet traffic if this cable goes online, and Seacom speculated this could be a major concern for the GoE. When asked, Seacom representatives told Econoffs they did not think Chinese-owned ZTE interference has played any part in the slow negotiations (ZTE is working inside ETC to expand its infrastructure). In addition, Seacom reported it had not been approached for any kickbacks or bribes by GoE or ETC officials.

DEAL HAS BEEN SEALED IN OTHER AFRICAN COUNTRIES

14. (SBU) Seacom's cable is now operational from South Africa up the coast to Mozambique, Tanzania, Kenya, Uganda, Rwanda and on to India. The company is looking to finalize agreements to lay the cable in the Red Sea and complete a connection to Europe. Besides Madagascar (due to political unrest), Ethiopia and Djibouti are the only two countries in the current Africa plan that are not hooked up to the Seacom cable. Seacom believes Ethiopia could have been hooked up (via Djibouti) by December 2009 if a deal had been finalized

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in October. Seacom reports Djibouti's cable operations are dependent on ETC signing a companion contract because Seacom would not find a Djibouti connection sufficiently profitable without Ethiopia. Seacom was told by ETC the connection lines were complete on the Ethiopian side all the way to the Djibouti border. Seacom also reports Djibouti has completed the lines from the coast to the Ethiopian border. Therefore, it appears the lines just need to be connected across the border for the cable to be functional in both countries. See www.seacom.mu for background on Seacom's undersea cable project and company background.

POTENTIAL TELECOM SECTOR CHANGES

15. (SBU) These negotiations come at a time where there has been talk of changes within the telecom sector. In early November, the GoE officially announced a tender seeking an international firm to overhaul ETC's management operations. The chosen company will introduce new schemes to reform ETC's core operations and increase revenues. The new company is not expected to begin its reforms until ZTE's expansion project is winding down in February or March 2010. Finance Minister Sufian Ahmed informed visiting DAS Karl Wycoff during a November 19 lunch that European, South Korean, and Indian companies have expressed interest in this tender. In October, local press reported ETC would be open to revenue-sharing agreements with private companies (including foreign). These reports, however, have not been confirmed by GoE officials. Another topic of telecom discussion is the draft telecoms bill expected to reach parliament in early 2010. Minister of Transport and Communications Diriba Kuma stated publicly the bill's purpose is to improve the telecom regulator (Ethiopian Telecommunications Agency) by equipping it with more authority and technology. Kuma denied reports stating the bill would lead to telecom liberalization.

COMMENT

¶6. (SBU) These contract negotiations have been dragging on for two years and Seacom is understandably anxious to close this deal. There are potentially two other cables that could serve as competition (East African Submarine Cable System (EASSy) being one of them) to the Seacom cable in the future.

The GoE may simply be holding out for the best deal; however, Seacom may lose its patience and Ethiopia may miss out altogether on improving its broadband capacity in the near term. Post has offered to support Seacom's efforts where appropriate, but Seacom has asked post to not/not take any action to date. End Comment.

MEECE